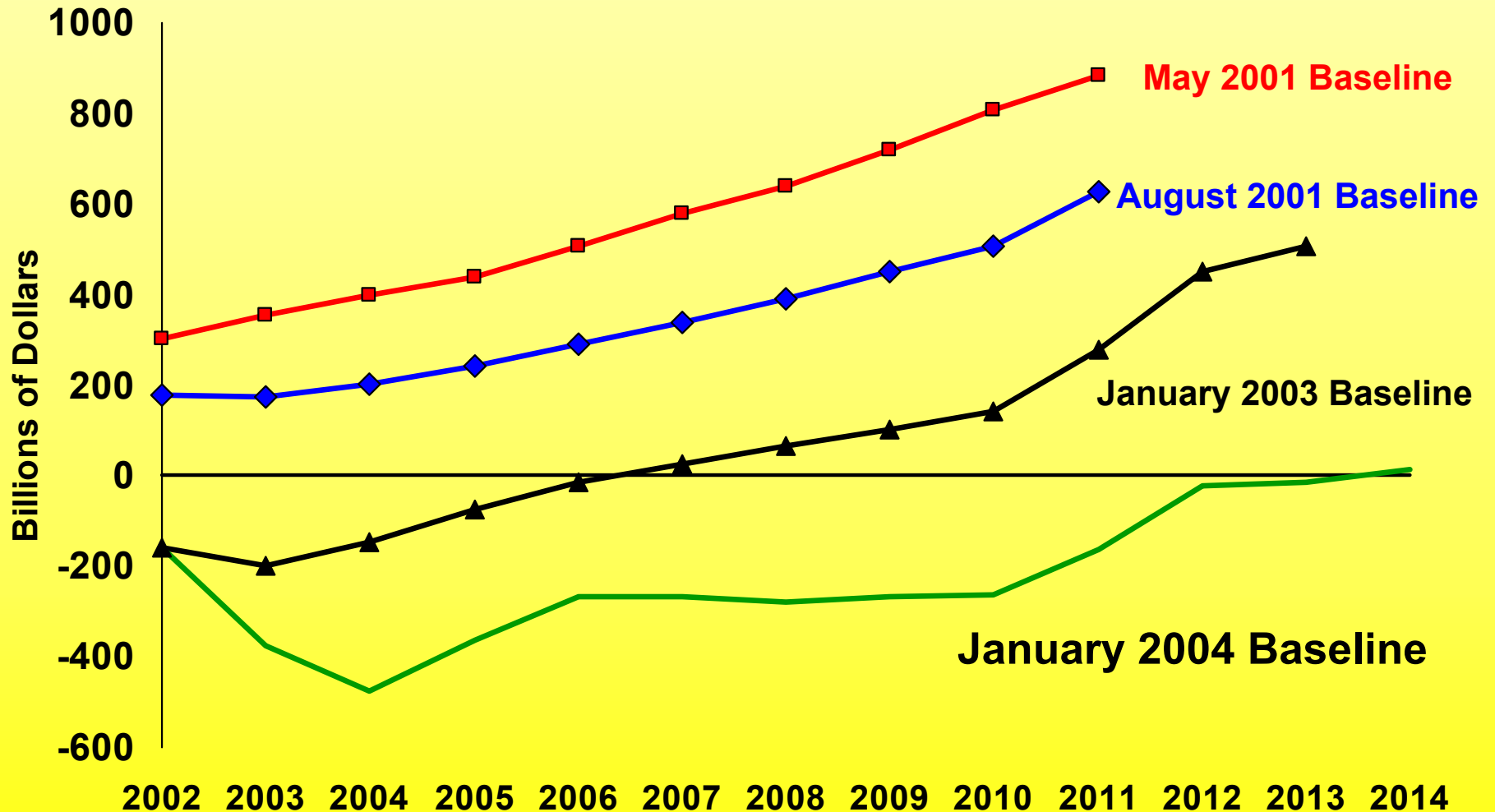


What Happened to the Surplus?

Unified Surplus or Deficit



Surplus Declines \$8.5 Trillion During Bush Administration

Unified Budget Surplus, CBO Baseline
Trillions of Dollars

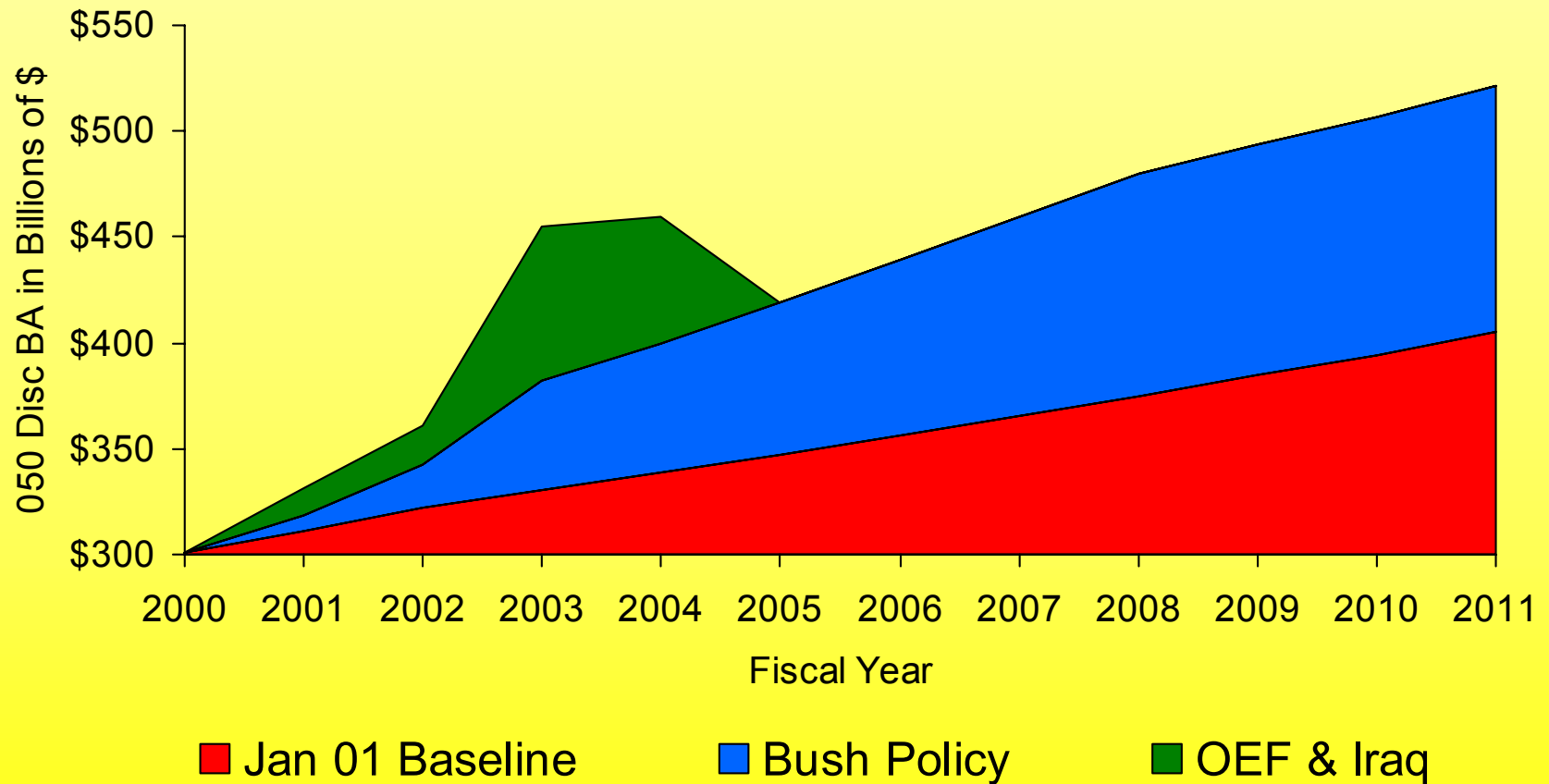
	2002-2011	2005-2014
May 2001	5.629	n.a.
January 2004	-2.876	-1.893

Budget Picture Declines Drastically Under Republican Leadership

On-Budget Surplus, CBO Baseline
Trillions of Dollars

	2002-2011	2005-2014
May 2001	3.142	n.a.
January 2004	-4.904	-4.288

Increased Cost of Defense Under Bush Administration

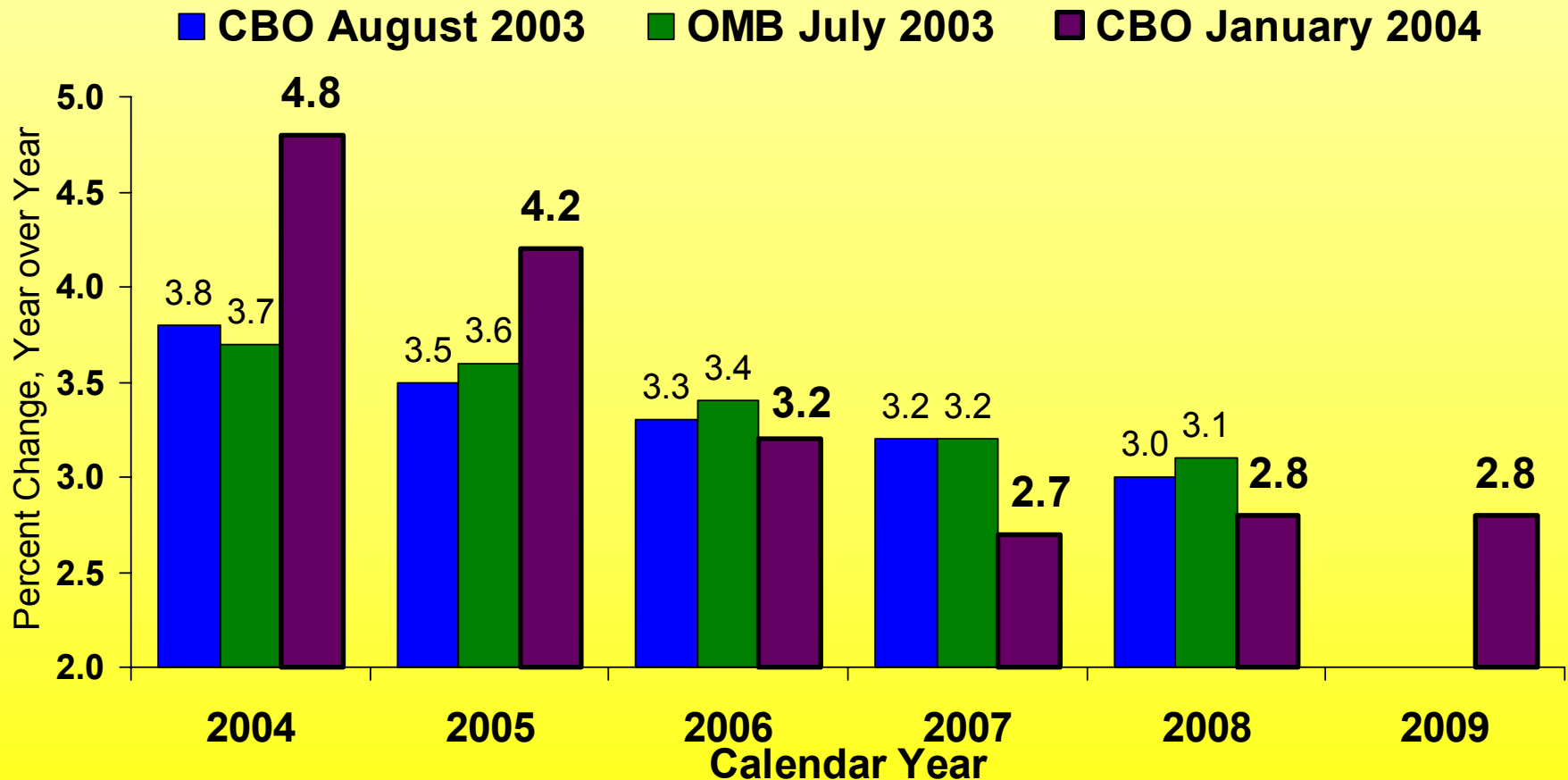


Defense Increases During Bush Administration

(National Defense Discretionary Budget Authority in Billions of Dollars)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2002- 2011</u>
CBO January Baseline 2001	321.8	330.3	338.9	347.4	356.3	365.5	374.9	384.6	394.5	404.9	3619.0
Policy Increases Excluding Supplemental	20.7	51.8	61.1	72.0	83.2	94.2	105.3	108.7	112.5	116.4	826.0
Iraq/OEF Supplemental	18.4	72.4	59.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	150.7
Total Increase	39.0	124.2	121.1	72.0	83.2	94.2	105.3	108.7	112.5	116.4	976.7
Total Bush Defense Program											
	360.8	454.5	460.0	419.4	439.5	459.7	480.1	493.3	507.0	521.3	4595.7

Budget Projections Already Assume Strong GDP Growth



CBO Baseline Does Not Include:

- **Extension of Republican Tax Cuts**
- **New Presidential initiatives such as lunar-based mission to Mars**
- **Social Security Reform**
- **Reauthorization of Transportation Bill**
- **The cost of addressing natural disasters like hurricanes, wildfires, floods, and earthquakes**

Extending Expiring Tax Provisions Would Lower Revenues By \$2.3 Trillion over 2005-2014

Table 4-10.

Effect of Extending Tax Provisions That Will Expire Before 2014

(Billions of dollars)

Tax Provision	Expiration Date	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total, 2005-2009	Total, 2005-2014
Provisions That Expired in 2003														
Archer Medical Savings Accounts	12/31/03	*	*	*	*	*	*	*	*	*	*	*	*	*
Brownfields Remediation	12/31/03	-0.1	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-1.2	-2.1
Corporate Contributions of Computers to Schools	12/31/03	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.7	-1.7
Credit for Electric Vehicles	12/31/03	*	*	*	*	*	*	*	*	*	*	*	*	*
Credit for Electricity Production from Renewable Sources	12/31/03	*	*	-0.1	-0.2	-0.2	-0.5	-0.8	-1.1	-1.5	-1.9	-2.2	-1.2	-8.7
Deduction for Teachers' Classroom Expenses	12/31/03	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-1.1	-2.2
Deductions for Clean-Fuel Vehicles and Refueling Property	12/31/03	*	-0.1	-0.2	-0.4	-0.5	-0.4	-0.4	-0.4	-0.3	-0.1	-0.1	-1.6	-2.8
Interest Rate for Pension Calculations	12/31/03	4.8	3.7	1.6	0.6	-1.3	-2.2	-2.6	-2.0	-1.9	-2.0	-1.3	2.5	-7.3
Net Income Limitation for Marginal Oil and Gas Wells	12/31/03	*	*	*	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.5
Qualified Zone Academy Bonds	12/31/03	*	*	*	*	*	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.6
Reduction in Policyholder Dividends for Insurance Companies	12/31/03	*	*	*	*	*	*	*	*	*	*	*	-0.2	-0.4
Rum Excise Tax Revenue to Puerto Rico and the Virgin Islands	12/31/03	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4	-0.8
Tax Incentives for Investment in the District of Columbia	12/31/03	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.5	-1.5
Treatment of Personal Credits Under AMT	12/31/03	-0.1	-0.6	-2.3	-3.6	-4.2	-4.8	-5.5	-6.1	-7.4	-8.5	-9.2	-15.5	-51.1
Welfare-to-Work Tax Credit	12/31/03	*	*	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3	-0.7
Work Opportunity Tax Credit	12/31/03	-0.1	-0.2	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4	-0.5	-0.5	-1.5	-3.7
Tax Incentives for Areas of New York City Damaged on Sept. 11	Various ^a	-0.1	-0.2	-0.3	-0.7	-0.9	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-3.0	-6.9
Provisions That Expire Between 2004 and 2014														
Credit for Research and Experimentation	06/30/04	-0.5	-2.8	-3.2	-3.7	-4.1	-4.6	-5.1	-5.6	-6.2	-6.7	-7.2	-18.4	-49.2
Abandoned Mine Reclamation Fees	09/30/04	n.a.	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	1.2	2.5
Depreciation for Business Property on Indian Reservations	12/31/04	**	-0.1	-0.4	-0.5	-0.5	-0.5	-0.4	-0.3	-0.3	-0.3	-0.3	-2.1	-3.6
Increased AMT Exemption Amount	12/31/04	n.a.	-7.1	-20.3	-26.8	-34.2	-42.8	-50.5	-42.0	-35.5	-30.6	-35.5	-131.1	-315.2
Indian Employment Tax Credit	12/31/04	n.a.	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3	-0.8
IRS User Fees	12/31/04	n.a.	**	**	**	**	**	**	**	**	**	**	**	0.2
Partial Expensing at 50 Percent	12/31/04	2.1	-0.4	-7.1	-6.2	-5.75	-8.4	-39.8	-33.0	-28.2	-26.0	-28.4	-284.6	-440.1

(Continued)

Table 4-10.

Continued

(Billions of dollars)

Tax Provision	Expiration Date	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total, 2005-2009	Total, 2005-2014
Authority for Undercover IRS Operations	12/31/05	n.a.	n.a.	**	**	**	**	**	**	**	**	**	**	**
Deduction for Qualified Education Expenses	12/31/05	n.a.	n.a.	-2.6	-3.6	-3.9	-4.2	-4.4	-3.9	-3.9	-4.0	-4.0	-14.4	-34.6
Puerto Rico Business Credits	12/31/05	n.a.	n.a.	-0.6	-1.4	-1.5	-1.6	-1.7	-1.9	-2.0	-2.2	-2.3	-5.1	-15.2
Section 179 Expensing	12/31/05	n.a.	n.a.	-3.6	-6.2	-4.8	-3.9	-3.3	-2.8	-2.6	-2.5	-2.6	-18.5	-32.3
Transfer of Excess Assets in Defined Benefit Plans	12/31/05	n.a.	n.a.	**	**	**	**	**	**	**	**	**	0.1	0.3
Andean Trade Preference Initiative	12/31/06	n.a.	n.a.	n.a.	*	*	*	*	*	*	*	*	-0.1	-0.3
Credit for TRA and 401(k)-Type Plans	12/31/06	n.a.	n.a.	n.a.	-0.6	-1.9	-1.7	-1.6	-1.4	-1.4	-1.3	-1.1	-4.1	-10.9
Depreciation for Clean-Fuel Automobiles	12/31/06	n.a.	n.a.	n.a.	*	*	*	*	*	*	*	*	*	-0.1
Generalized System of Preferences	12/31/06	n.a.	n.a.	n.a.	-0.4	-0.6	-0.6	-0.7	-0.7	-0.7	-0.8	-0.8	-1.6	-5.3
Subpart F for Active Financing Income	12/31/06	n.a.	n.a.	n.a.	-0.9	-2.8	-3.1	-3.5	-4.0	-4.4	-4.9	-5.3	-6.8	-28.9
Alcohol Fails Income Credit	12/31/07	n.a.	n.a.	n.a.	n.a.	*	*	*	*	*	*	*	*	*
FUTA Surtax of 0.2 Percentage Points	12/31/07	n.a.	n.a.	n.a.	n.a.	1.0	1.4	1.5	1.5	1.5	1.5	1.5	2.5	9.9
New Markets Tax Credit	12/31/07	n.a.	n.a.	n.a.	n.a.	-0.1	-0.3	-0.4	-0.6	-0.8	-1.0	-1.2	-0.4	-4.6
Reduced Tax Rates on Dividends and Capital Gains	12/31/08	n.a.	n.a.	n.a.	n.a.	-2.3	-12.8	-25.7	-34.9	-39.7	-43.7	-44.0	-15.1	-208.1
Empowerment and Renewal Zones	12/31/09	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-0.8	-1.6	-3.7	-3.9	-2.0	0	-8.1
Estate and Gift Tax Changes	12/31/10	-0.5	-0.9	-1.1	-1.5	-1.9	-1.7	-2.4	-29.0	-51.0	-55.3	-60.8	-7.2	-205.6
Other Provisions of EGTRRA and JGTRRA ^b	Various ^c	n.a.	-12.9	-25.2	-23.1	-39.0	-35.8	-10.4	-103.3	-176.5	-179.8	-182.2	-96.1	-748.2
All Expiring Provisions														
Interaction from Extending All Provisions Together		0	-1.5	-3.2	-1.8	0.2	2.4	2.9	-11.4	-32.5	-34.6	-37.0	-3.9	-116.5
Total		6.0	-64.9	-133.6	-141.9	-142.1	-148.1	-157.6	-286.7	-389.2	-406.7	-428.6	-630.7	-2,295.5

Sources: Joint Committee on Taxation; Congressional Budget Office.

Notes: * = between -\$50 million and zero; ** = between zero and \$50 million; n.a. = not applicable; AMT = alternative minimum tax; IRS = Internal Revenue Service; IRA = individual retirement account; FUTA = Federal Unemployment Tax Act; EGTRRA = Economic Growth and Tax Relief Reconciliation Act of 2001; JGTRRA = Jobs and Growth Tax Relief Reconciliation Act of 2003.

These estimates assume that the expiring provisions are extended immediately rather than when they are about to expire and that provisions that have already expired are reintroduced immediately.

The provisions are assumed to be extended at the rates or levels existing at the time of expiration. These estimates do not include debt-service costs. When this report went to press, JCT's estimates based on the new economic projections were unavailable for most expiring provisions related to EGTRRA's and JGTRRA's individual income tax provisions and the AMT. For the two expiring AMT provisions, CBO updated JCT's previous estimates for the estimated effects of the changed economic projections. Estimates of provisions combined in the entry for "Other Provisions of EGTRRA and JGTRRA" have not been updated, although they were extended to 2014. JCT's updated estimates will be made available when they are completed. JCT has updated the estimates of provisions of EGTRRA and JGTRRA that are shown as separate entries and all other provisions except those for the AMT.

a. The provision that expands the work opportunity credit in New York City expired on 12/31/2003. The provisions that increase expensing under Section 179 and allow a five-year lifetime for leasehold improvements expire on 12/31/2006. The provisions related to partial expensing for property placed in service expire on 12/31/2006 and 12/31/2009.

b. These provisions affect several rates, brackets, credits, and other parameters for individual income taxes: the child tax credit; 10 percent rate bracket; 15 percent rate bracket and standard deduction for joint filers; 25 percent and higher tax rates; the phaseout of limitations on itemized deductions and personal exemptions; and certain education, pension, and other provisions. All of the provisions as enacted in EGTRRA expire at the end of 2010. Modifications enacted in JGTRRA expire at the end of 2004. The estimates do not include the deduction for qualified education expenses; the credit for IRA and 401(k)-type plans; reduced rates on dividends and capital gains; and the exemption amount for the AMT, which are shown in separate entries.

Republican Tax Cuts Make Deficit Picture Worse

Unified Budget Surplus, Trillions of Dollars

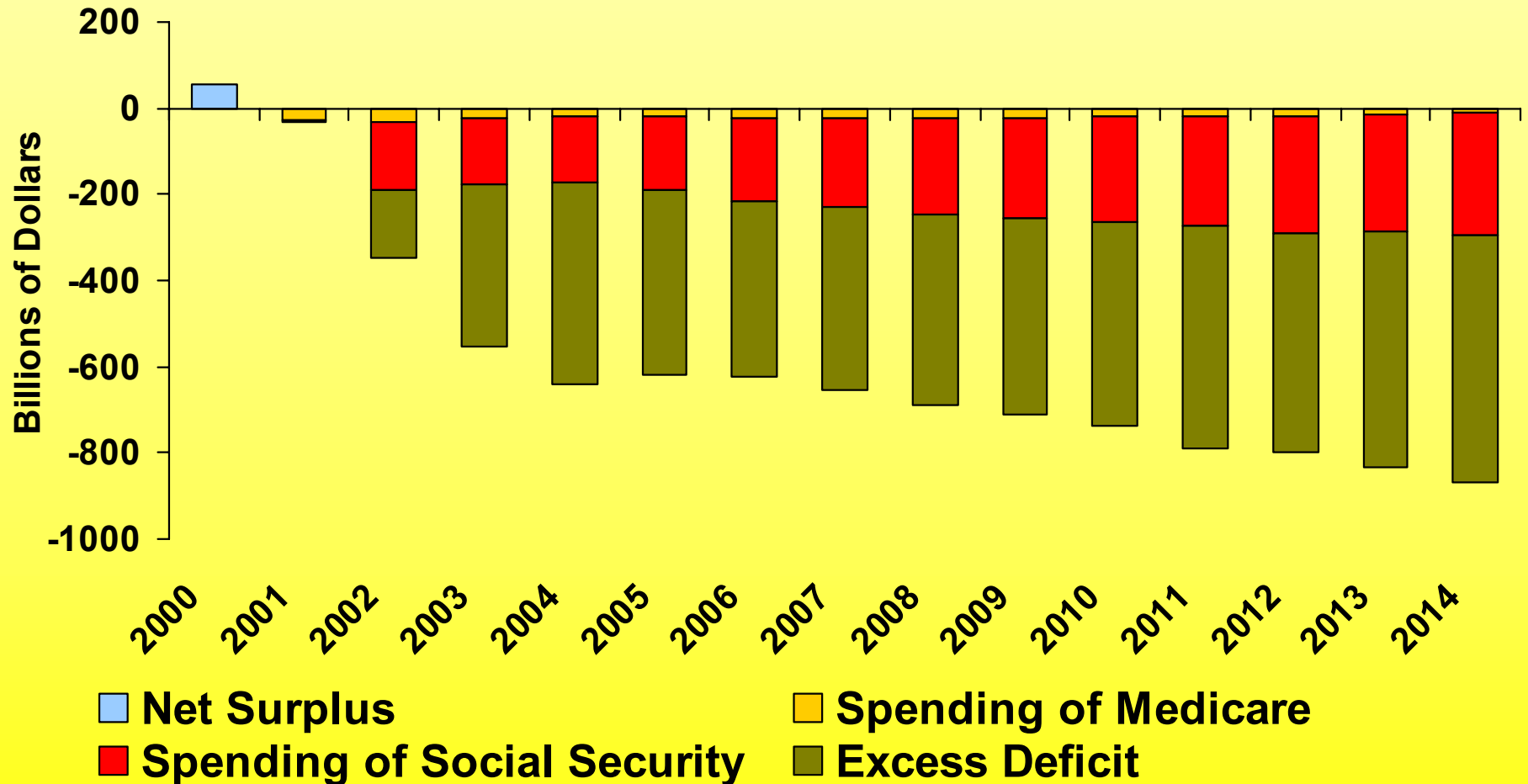
	2002-2011	2005-2014
May 2001	5.629	n.a.
January 2004 Baseline with Extension of Republican Tax Cuts	-4.154	-4.782

Republican Tax Cuts Make Deficit Picture Worse

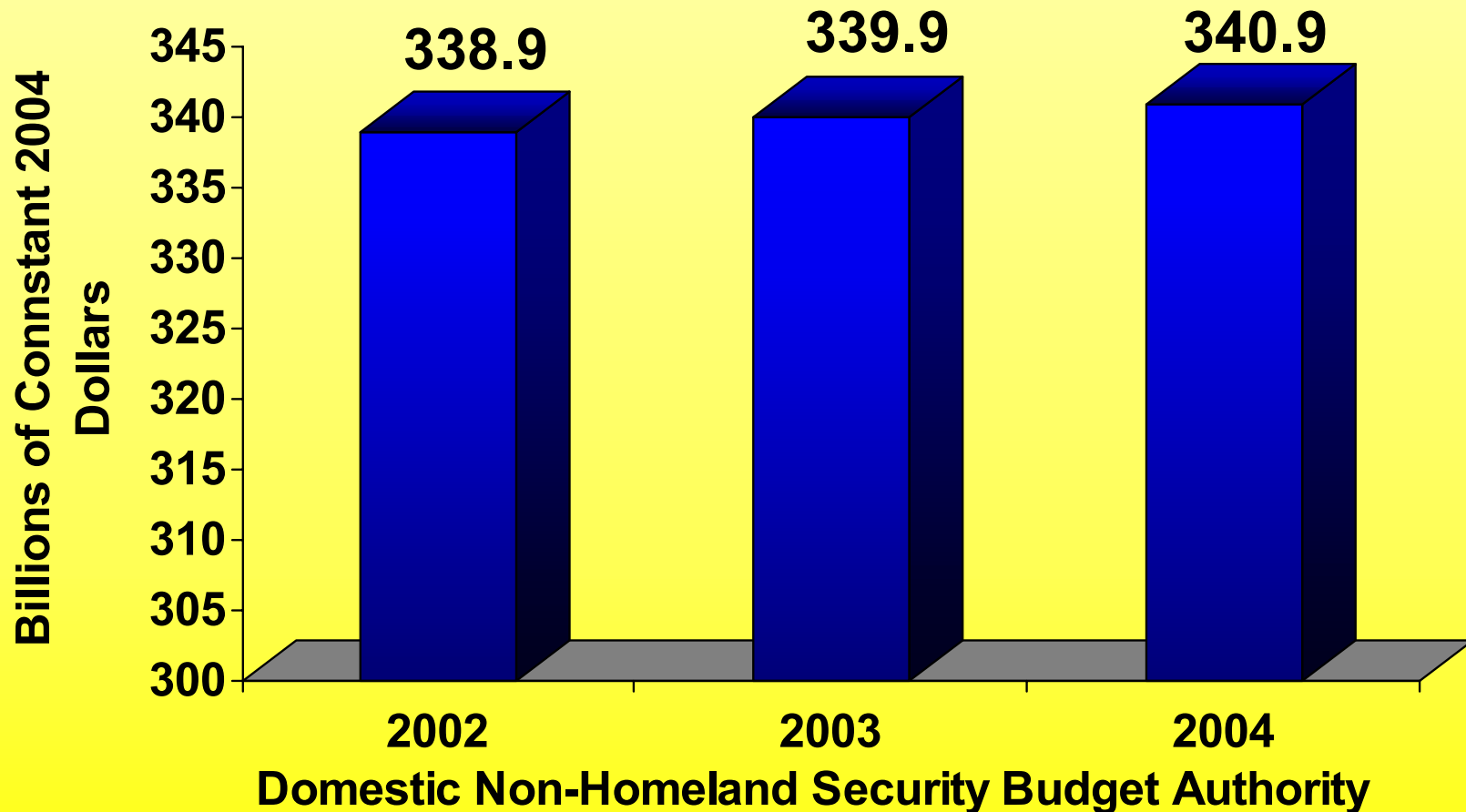
On-Budget Surplus, Trillion of Dollars

	2002-2011	2005-2014
May 2001	3.142	n.a.
January 2004 Baseline with Extension of Republican Tax Cuts	-6.182	-7.177

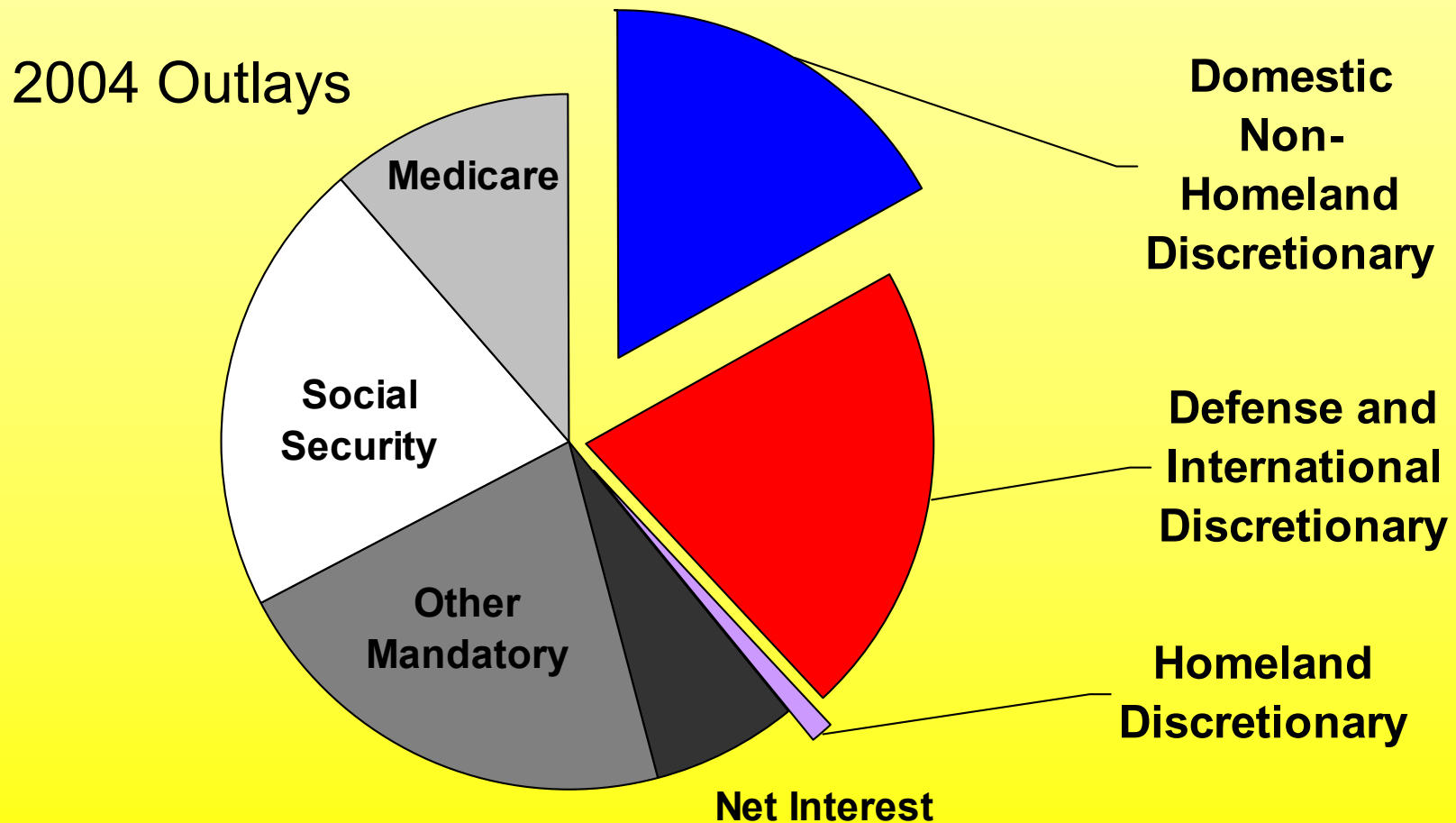
President's Policies Spend Social Security and Medicare



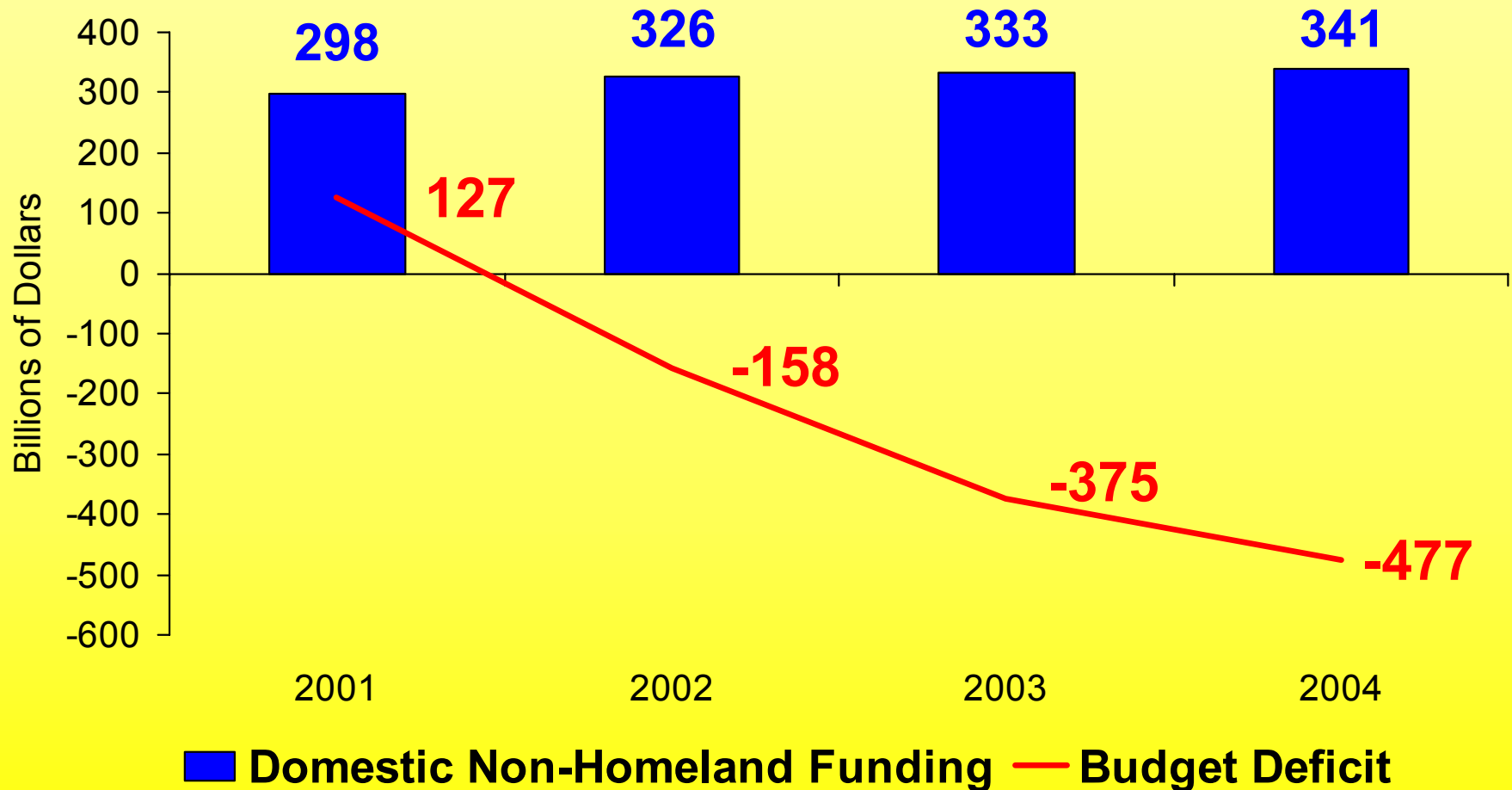
Domestic Funding Frozen for Three Years



Domestic Non-Homeland Discretionary Spending Only One-Sixth of Budget



Eliminating All Domestic Non-Homeland Funding Would Not Balance Budget



Defense, Homeland Security and 9/11 Response Account for At Least 90 Percent of Funding Increases

